

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Lake Odessa Community Library	County Ionia
Fiscal Year End February 28, 2007	Opinion Date June 7, 2007	Date Audit Report Submitted to State June 19, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

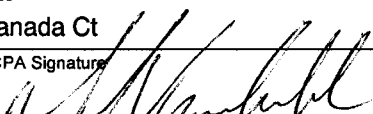
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Vredeveld Haefner LLC		Telephone Number 616-446-7474	
Street Address 4001 Granada Ct		City Grand Rapids	State MI
Zip 49534			
Authorizing CPA Signature 	Printed Name Douglas J. Vredeveld	License Number 21289	



Vredeveld Haefner LLC

CPA's and Consultants
4001 Granada Ct.
Grand Rapids, MI 49534
FAX (616) 828-0307

Douglas J. Vredeveld, CPA
(616) 446-7474

Peter S. Haefner, CPA
(616) 460-9388

June 7, 2007

To the Library Board
Lake Odessa Community Library
Lake Odessa, MI

In planning and performing our audit of the financial statements of the Lake Odessa Community Library, as of and for the year ended February 28, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Lake Odessa Community Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the entity's financial statements will not be prevented or detected by the entity's internal control. We believe the following deficiency constitutes a material weakness.

New auditing standards emphasize that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows, including the notes to the financial statements in conformity with U.S. generally accepted accounting principles and that the auditor cannot be a part of those internal controls.

We noted that the Library was not recording entries necessary to prepare fund basis financial statements on the modified accrual basis of accounting or to prepare entity-wide financial statements on the accrual basis of accounting.

This communication is intended solely for the information and use of the Library Board and management of the Library, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Vredeveld Haefner LLC

LAKE ODESSA COMMUNITY LIBRARY
LAKE ODESSA, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED FEBRUARY 28, 2007

LAKE ODESSA COMMUNITY LIBRARY

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Vredeveld Haefner LLC

CPA's and Consultants

4001 Granada Ct.

Grand Rapids, MI 49534

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Peter S. Haefner, CPA

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INDEPENDENT AUDITORS' REPORT

June 7, 2007

Members of the Library Board
Lake Odessa Community Library
Lake Odessa, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Lake Odessa Community Library, Lake Odessa, Michigan, as of and for the year ended February 28, 2007, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Lake Odessa Community Library. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund for the Lake Odessa Community Library as of February 28, 2007, and the respective changes in financial position, and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Vredeveld Haefner LLC

Management's Discussion and Analysis

About the Library

Lake Odessa Community Library (the "Library") serves the Village of Lake Odessa and Township of Odessa located within the County of Ionia, Michigan. The Library was established in 1986 and organized as a District Library under the District Library Establishment Act in 1999. The Library is governed by an eight member board with four members appointed by each of the participating municipalities.

Financial Highlights

Property taxes increased due in part to increasing property values, but also to an increase in millage during the year. The Library board had agreed not to levy a full mill on Odessa Township for a period of three years. They have honored that agreement and are now collecting the full mill.

The Library was able to make extra principal payments on its loan during the year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Library's basic financial statements. The Library's basic financial statements comprise three components: 1) Government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements

The *Government-wide financial statements* are designed to provide readers with a broad overview of the Library's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Library's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

The *statement of activities* presents information showing how the Library's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the Library that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The Library currently has no business-type activities.

Fund financial statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Library only utilizes governmental funds.

Governmental funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a Library's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Library's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances, provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Library adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information*. This is limited to this discussion and analysis.

Condensed Financial Information

The following table represents condensed information about the Library's financial position for the past two (2) fiscal years. Net assets increased \$80,179 during the year. Total net assets include the investment in capital assets. Capital assets represents the capital assets held by the Library, net of related accumulated depreciation

	<u>2007</u>	<u>2006</u>
Current and other assets	\$233,712	\$166,542
Capital assets	196,929	202,044
Total assets	430,641	368,586
Current and other liabilities	9,712	17,873
Long-term liabilities	8,504	18,467
Total liabilities	18,216	36,340
Net assets		
Invested in capital assets, net of related debt	188,425	170,277
Unrestricted	224,000	161,969
Total net assets	\$412,425	\$332,246

Income and Expenses

The Library has maintained a stable financial position during the year ended February 28, 2007. Income was sufficient to meet the current expenses. A summary of revenues and expenses for the past two (2) fiscal years is presented below.

	<u>2006</u>	<u>2005</u>
Program revenues		
Charges for services	\$ 9,725	\$ 4,027
Grants	3,430	4,868
General revenues		
Property taxes	205,352	173,164
Penal fines	41,270	36,178
Other general revenues	9,284	12,191
Total revenues	<u>269,061</u>	<u>230,428</u>
Functions/program expenses		
Library	186,461	174,701
Interest expense	2,421	3,414
Total expenses	<u>188,882</u>	<u>178,115</u>
Change in net assets	80,179	52,313
Net assets, beginning of year	<u>332,246</u>	<u>279,933</u>
Net assets, end of year	<u>\$412,425</u>	<u>\$332,246</u>

Capital Asset and Long-Term Debt Activities

During the year the Library purchased a disk cleaning machine for \$2,985.

Debt service activity consisted of principal payments of \$21,887 which resulted in outstanding loans payable at year end of \$8,504.

Future Projections

Funding for the Library from member municipalities is projected to remain stable. Salaries increased a modest amount. The Library Cooperative which the Library belongs to continues to loose state funding which could result in lower service levels in the future. The 2007-2008 budget includes a higher maintenance budget in anticipation of painting the exterior of the building.

Contacting the Library Management

This management discussion and analysis provides an overview of the current and prospective financial condition of the Library's operations and financial position. If there are questions concerning this report or if additional information is desired, please contact the Head Librarian at 616-374-4591 or e-mail lkocmt@lakeodessalibrary.org.

LAKE ODESSA COMMUNITY LIBRARY

STATEMENT OF NET ASSETS

FEBRUARY 28, 2007

	Primary Government Governmental Activities
Assets	
Cash and certificates of deposit	\$ 117,163
Due from other governments	116,549
Capital assets, net	
Buildings and equipment	<u>196,929</u>
Total assets	<u>430,641</u>
Liabilities	
Accounts payable and accrued expenses	3,234
Unearned revenue	1,761
Compensated absences	4,717
Noncurrent liabilities	
Due within one year	8,504
Due in more than one year	<u>-</u>
Total liabilities	<u>18,216</u>
Net Assets	
Invested in capital assets, net of related debt	188,425
Unrestricted	<u>224,000</u>
Total net assets	<u>\$ 412,425</u>

The accompanying notes are an integral part of these financial statements.

LAKE ODESSA COMMUNITY LIBRARY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED FEBRUARY 28, 2007

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary government					
Governmental activities					
Library	\$ 186,461	\$ 9,725	\$ 3,430	\$ -	\$ (173,306)
Interest on long-term debt	2,421	-	-	-	(2,421)
Total primary government	\$ 188,882	\$ 9,725	\$ 3,430	\$ -	(175,727)
General revenues					
Property taxes					205,352
County penal fines					41,270
State revenues					2,040
Village revenues					3,000
Interest earnings					2,053
Other general revenues					2,191
Total general revenues					255,906
Change in net assets					80,179
Net assets, beginning of year					332,246
Net assets, end of year					\$ 412,425

The accompanying notes are an integral part of these financial statements.

LAKE ODESSA COMMUNITY LIBRARY

GOVERNMENTAL FUNDS BALANCE SHEET

FEBRUARY 28, 2007

	<u>General Fund</u>
Assets	
Cash and certificates of deposit	\$ 117,163
Due from other governments	<u>116,549</u>
Total assets	<u>\$ 233,712</u>
 Liabilities and fund balance	
Liabilities	
Accounts payable and accrued liabilities	\$ 3,234
Deferred revenue	<u>1,761</u>
Total liabilities	4,995
 Fund balances	
Unreserved	
Undesignated	<u>228,717</u>
Total liabilities and fund balance	<u>\$ 233,712</u>

The accompanying notes are an integral part of these financial statements.

LAKE ODESSA COMMUNITY LIBRARY

RECONCILIATION OF FUND BALANCE ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS

FEBRUARY 28, 2007

Fund balances - total governmental funds	\$ 228,717
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	
Add - capital assets (net)	196,929
Certain liabilities, such as notes payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - mortgage note payable	(8,504)
Deduct - accrued compensated absences	<u>(4,717)</u>
Net assets of governmental activities	<u>\$ 412,425</u>

The accompanying notes are an integral part of these financial statements.

LAKE ODESSA COMMUNITY LIBRARY

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED FEBRUARY 28, 2007

	<u>General Fund</u>
Revenues	
Taxes	\$ 205,352
Intergovernmental	
State revenues	2,040
County penal fees	41,270
Village revenues	3,000
Fees and charges	9,130
Donations	1,511
Interest	2,053
Miscellaneous	<u>4,705</u>
Total revenues	<u>269,061</u>
Expenditures	
Current	
Library	
Personnel	
Salary and wages	81,770
Benefits	13,315
Contractual	32,774
Supplies and other	26,977
Books	19,620
Capital outlay	6,227
Debt service	
Principal	21,887
Interest	<u>2,421</u>
Total expenditures	<u>204,991</u>
Net changes in fund balance	64,070
Fund balance, beginning of year	<u>164,647</u>
Fund balance, end of year	<u>\$ 228,717</u>

The accompanying notes are an integral part of these financial statements.

LAKE ODESSA COMMUNITY LIBRARY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED FEBRUARY 28, 2007

Net changes in fund balance - total governmental funds	\$ 64,070
 Amounts reported for <i>governmental activities</i> in the statement of activities are different because	
 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.	
Add - capital outlay	2,985
Deduct - depreciation expense	(8,100)
 Repayment of bond or note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
Add - principal payments on mortgage note payable	21,887
Add - principal payments on lease payable	1,376
 Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Deduct - increase in compensated absences	<u>(2,039)</u>
 Change in net assets of governmental activities	 <u>\$ 80,179</u>

The accompanying notes are an integral part of these financial statements.

LAKE ODESSA COMMUNITY LIBRARY

GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED FEBRUARY 28, 2007

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Positive</u> <u>(Negative)</u>
Revenues				
Taxes	\$ 172,847	\$ 172,847	\$ 205,352	\$ 32,505
Intergovernmental				
State revenues	1,500	1,500	2,040	540
County penal fees	31,000	41,000	41,270	270
Village revenue	3,000	3,000	3,000	-
Fees and charges	6,350	6,350	9,130	2,780
Donations	500	500	1,511	1,011
Interest	900	900	2,053	1,153
Miscellaneous	2,500	2,500	4,705	2,205
Total revenues	<u>218,597</u>	<u>228,597</u>	<u>269,061</u>	<u>40,464</u>
Expenditures				
Current				
Library				
Personnel				
Salary and wages	82,276	82,276	81,770	506
Benefits	13,319	13,444	13,315	129
Contractual	42,008	42,340	32,774	9,566
Supplies and other	31,385	33,995	26,977	7,018
Books	18,000	20,000	19,620	380
Capital outlay	6,500	8,107	6,227	1,880
Debt service				
Principal	21,887	21,887	21,887	-
Interest	2,421	2,421	2,421	-
Total expenditures	<u>217,796</u>	<u>224,470</u>	<u>204,991</u>	<u>19,479</u>
Net changes in fund balance	801	4,127	64,070	59,943
Fund balance, beginning of year	<u>164,647</u>	<u>164,647</u>	<u>164,647</u>	<u>-</u>
Fund balance, end of year	<u>\$ 165,448</u>	<u>\$ 168,774</u>	<u>\$ 228,717</u>	<u>\$ 59,943</u>

The accompanying notes are an integral part of these financial statements.

LAKE ODESSA COMMUNITY LIBRARY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED FEBRUARY 28, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Lake Odessa Community Library, Lake Odessa Michigan (the "Library") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Lake Odessa Community Library. There are no component units to be included. The criteria for including a component unit include significant operational or financial relationships with the Library.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues are reported in total. The Library has no business-type or fiduciary activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

All individual governmental funds are reported as separate columns in the fund financial statements.

The Library maintains only one fund, the general fund, which is reported as a major governmental fund and is used to account for all financial resources of the Library.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resource as they are needed.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

LAKE ODESSA COMMUNITY LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 28, 2007

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Governmental funds are accounted for using the *modified accrual basis of accounting*. Their revenues are recognized when they become measurable and available. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for reimbursement-based grants and interest which use a one year collection period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. Exceptions to this general rule include: (1) principal and interest on long-term debt (2) payment for compensated absences, which are recognized when due.

Governmental funds are accounted for on a spending or "flow of financial resources" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is considered a measure of "available, spendable resources".

Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available, spendable resources" during a period.

Budgets and Budgetary Accounting

Comparisons to budget are presented for the General Fund. The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to January 1, the Library Director submits to the Library board a proposed operating budget for the fiscal year commencing the following March 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to March 1, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for the general funds.
5. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP).
6. Adoption and amendments of all budgets used by the Library are governed by Michigan Law. The appropriations ordinances are based on the projected expenditures budget of the various functions of the Library. Any amendment to the original budget must meet the requirements of Michigan Law. The Library amended its budget for the year ended February 28, 2007. Any revisions that alter the expenditures at the activity level within the general fund must be approved by the Library Board.

Budgets for expenditures are adopted on an activity basis. Budgeted amounts are as originally adopted, or as amended, by the Library board.

LAKE ODESSA COMMUNITY LIBRARY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED FEBRUARY 28, 2007

Deposits and Investments

State statutes authorize the Library to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

The Library utilized depository and savings accounts during the year.

Capital Assets

Capital assets, which include property and, equipment are reported in the governmental activities column in the government-wide financial statements.

Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	50
Equipment	5-7

LAKE ODESSA COMMUNITY LIBRARY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED FEBRUARY 28, 2007

Deferred Revenue

Governmental funds report *deferred revenue* in connection with revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned. At the end of the current fiscal year, the Library reported *deferred revenue* for State of Michigan payments to support fiscal year 2008 operations as follows:

General fund	\$ 1,761
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Long-Term Obligations

In the government-wide financial statements the long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

In the fund financial statements, the face amount of debt issued is reported as other financing sources and payments made on debt are reported as debt service expenditures.

Property Taxes

The Library receives property taxes collected by Odessa Township and Ionia County which are levied December 1 and payable by February 15. Property tax revenues are recognized as revenue in the year for which they are levied.

Grants and Other Intergovernmental Revenues

Grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenue when entitlement occurs. Reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditure/expenses are incurred.

Fund Equity

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended February 28, 2007, the Library carried commercial insurance to cover risks of losses. The Library has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

LAKE ODESSA COMMUNITY LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 28, 2007

2. DEPOSITS AND INVESTMENTS

The balances on the financial statements for cash and certificates of deposits is \$117,163.

These balances are in one financial institution located in Michigan. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the Library. They are recorded in Library records at fair value.

Deposit risk

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned. As of year-end, \$22,672 of the Library's bank balance of \$122,672 was exposed to custodial credit risk because it was uninsured and uncollateralized.

3. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	Balance March 1, 2006	Additions	Deletions	Balance February 28, 2007
Governmental activities				
Capital assets, being depreciated				
Building and improvements	\$257,854	\$ -	\$ -	\$257,854
Equipment	93,479	2,985	6,167	90,297
Total capital assets, being depreciated	<u>351,333</u>	<u>2,985</u>	<u>6,167</u>	<u>348,151</u>
Less accumulated depreciation for				
Building and improvements	82,513	5,157	-	87,670
Equipment	66,776	2,943	6,167	63,552
Total accumulated depreciation	<u>149,289</u>	<u>8,100</u>	<u>6,167</u>	<u>151,222</u>
Governmental activities capital assets, net	<u>\$202,044</u>	<u>\$ (5,115)</u>	<u>\$ -</u>	<u>\$196,929</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities

Library	\$ 8,100
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LAKE ODESSA COMMUNITY LIBRARY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 28, 2007

4. LONG-TERM DEBT

The following is a summary of the debt transactions for the year:

	<u>Balance March 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance February 28, 2007</u>	<u>Due Within One Year</u>
Mortgage note payable to a bank in annual installments of \$14,308 including interest at 4.25% below the Union Bank base rate (effective rate of 6.0% at February 28, 2007).	\$ 30,391	\$ -	\$ 21,887	\$ 8,504	\$ 8,504
Capital lease payable repaid during the year	<u>1,376</u>	<u>-</u>	<u>1,376</u>	<u>-</u>	<u>-</u>
	<u>\$ 31,767</u>	<u>\$ -</u>	<u>\$ 23,263</u>	<u>\$ 8,504</u>	<u>\$ 8,504</u>

The annual requirements to amortize all debt outstanding as of December 31, 2006 are as follows:

<u>Year Ending February 28</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	<u>\$ 8,504</u>	<u>\$ 1,033</u>	<u>\$ 9,537</u>